A New Energy Economy for California
Lehman Brothers Commissioner Chat – NARUC Portland

I. Introduction & Regulatory Philosophy of Commissioner Simon

- Good afternoon, everyone. I would like to take a few moments to discuss some of California's great achievements and ongoing endeavors in California energy policy as well as my deep commitment to workforce investment in the new green energy economy.

- I believe that effective policy-making promotes opportunities for economic growth while protecting the public interest. California has always provided great opportunities for business development, and I want to ensure that the utilities industries continue to attract adequate capital investment going forward so that California remains on the cutting edge of infrastructure development and provides job opportunities for all communities. And just as California's utilities should earn fair rates of return on equity to provide an incentive for continued investment in project development, California's ratepayers should also be rewarded with the best possible utility service quality at the lowest possible rates. We must always balance these two critical objectives.

- Furthermore, for their investment in the State of California, the general public deserves access to training and job opportunities in the utility sector. But this vision of a more robust green collar workforce must be a nationwide effort for economic stimulus ignited by state and federal energy policy initiatives.

II. California's New Energy Economy

- As regulators, utility representatives, and investors, we need to work together to ensure that we are promoting and investing in green collar jobs and proper education to train our workforce to meet the changing technical needs of the energy industry. Now more than ever, legislative mandates and policies are steering the energy industry toward investment in green energy technologies.

- Like the rest of the nation, Californians are currently experiencing many challenges associated with a difficult economy. I read many emails from California's concerned ratepayers and listen to their testimony in public participation hearings, and it is clear that these increasing financial burdens weigh heavily on their minds. We all share these concerns and need to make critical sacrifices and tradeoffs in order to weather the storm. And yet, in spite of these challenges, I see tremendous opportunities for significant economic growth in the energy sector for Californians and the rest of the nation.

- The need for more efficient, diverse, and environmentally friendly energy resources in California has ushered in a new era of economic growth. In California's ardent quest for the development of new and diverse forms of energy supply and sustainable resource procurement strategies, we must not fail to take advantage of new opportunities for building a stronger and more inclusive workforce in California. The last tech boom in

California provided incredible opportunities for the middle- to upper- income strata, yet in its wake left a digital divide that persists today. We cannot afford to leave other critical parts of our workforce out of the green technology sweepstakes.

The Nexus between Effective Policymaking and Capital Investment

- The broad exchange of ideas and recommendations for new resources and green initiatives at the California Public Utilities Commission results in public policy that is well-informed by comprehensive input. Having such a wealth of input and resources for policy-making helps to address and mitigate the risks associated with new ventures in this green economy.

- California Investor Owned Utilities earn favorable rates of return and maintain consistent investment grade credit ratings through fair and reasonable capital structures. The CPUC recently approved the proposed and uncontested capital structures of California's three major Investor Owned Utilities, which have been authorized for Test Year 2008 Returns on Equity ranging from 11.1% to 11.5%.

- Consistent with the rest of the nation's IOUs, California's electric utilities project increasing capital expenditures to keep up with the proliferation of procurement mandates, new generation, transmission, and other infrastructure improvements and reliability needs. This upward trend in CapEx projections must be carefully balanced with the need to keep rates reasonable. Thus, as I will discuss in more detail shortly, California is pursuing aggressive energy efficiency and other demand side management programs to help consumers make choices that will help to reduce their electricity bills. With continued capital investment in technologies and a more broad and diverse workforce, California can sustainably advance the goals of the new green energy economy.

III. New and Emerging Policies and Regulatory Mandates

The Energy Action Plan

- California is a leader in energy policy, and some of our current successful policies can and must lead to an all-inclusive utility workforce development plan. I have a lot of faith in California's policy-making process, and I would like to share some of our achievements with you as I discuss our foundation for the future.

- In 2003, Governor Schwarzenegger endorsed the Energy Action Plan that was created and adopted by The California Public Utilities Commission and the California Energy Commission. An updated version of the Energy Action Plan established a strategic "Loading Order" of preferred resources for California, with Energy Efficiency as the top priority procurement resource, followed by Demand Response and renewable energy deployment. I will discuss this Loading Order and other energy policy programs and strategies in more detail.

➢ Energy Efficiency

- California's energy efficiency programs are recognized as the most aggressive and successful in the nation, resulting in annual savings of 40,000 Gigawatt-hours (GWh) of electricity and 12,000 Megawatts of peak demand. Another 23,000 Gigawatt hours per year of savings are expected by the year 2013. With the adoption of "Big, Bold" Energy Efficiency Strategies, all new residential construction will be "zero net energy" by 2020, with all new commercial construction to follow suit by 2030. Energy Efficiency is the least-cost and most reliable resource, and is the best way to reduce Greenhouse Gas emissions.

➢ Demand Response & Advanced Metering Infrastructure

- The CPUC has authorized the implementation of a number of Demand Response programs for utilities that are expected to reduce peak electricity demand by approximately 2,700 megawatts. In addition, the CPUC authorized a two year Statewide Pricing Pilot that will evaluate Time of Use pricing and demand response for a sample of residential consumers. Advanced Metering Infrastructure implementation costs are also being evaluated by the CPUC.

- These programs will allow consumers to reduce electricity use during peak demand periods, when energy resources are scarce and typically more expensive. Moreover, these programs will help to enhance electric system reliability, decrease our need for carbon-intensive energy sources, and help consumers make choices that reduce their electricity costs.

➢ Renewable Portfolio Standard

- The California Public Utilities Commission is implementing the Renewable Portfolio Standard, one of the most aggressive renewable energy programs in the nation. The RPS requires utilities to increase procurement from eligible renewable resources by at least 1 percent of their retail sales annually, and a total of 20 percent renewables procurement by 2010. The CPUC is in the process of outlining the necessary steps to reach Governor Schwarzenegger's Renewable Portfolio Standard goal of 33% renewable procurement.

- As part of California's push for renewable resource procurement, the CPUC is implementing the California Solar Initiative, the primary objective of which is to install 3,000 Megawatts of customer-owned, distributed solar projects by 2016. California currently has 280 Megawatts of solar installed, and will continue building on these efforts through this initiative.

- Increasing renewable energy resource procurement is expected to reduce carbon dioxide emissions by approximately 18.7 million metric tons. These emissions

reductions will go a long way toward helping to meet the goals of Assembly Bill 32 to battle Climate Change, which I will now discuss in greater detail.

AB 32 and the Greenhouse Gas Emissions Reduction Program

- One of Governor Schwarzenegger's greatest challenges and top priorities for California is addressing Climate Change. Assembly Bill 32, also known as the California Global Warming Solutions Act of 2006, requires that California reduce emissions to 1990 levels by 2020, and to achieve 80% emissions reductions by 2050. The CPUC is working jointly with the California Energy Commission and the California Air Resources Board to develop extensive policy for reducing Greenhouse Gas emissions in the electricity sector to meet the mandates of AB 32.

- California is in the process of developing a detailed plan for a multi-sector Cap-and-Trade system as one method of reducing emissions in the State. This market-based system would involve the allocation or the auctioning of Greenhouse Gas emissions allowances to regulated entities. If ultimately adopted, some of the auction revenue from a Cap-and-Trade system could be used for investment in research and development for new emissions reduction technologies for generation sources as well as outreach and training programs for California's green technology workforce. Some of the auction revenue could also be utilized to partially offset consumer rate increases associated with the cost of utility emissions allowances.

- Participation in the joint CPUC/California Energy Commission Greenhouse Gas proceeding has been incredibly extensive, which is a testament to the quality of the energy policy-making process in California. Furthermore, this AB 32 policy process has been a monumental undertaking, and one that should set a leading example for other states in the US and other countries that are now also embarking upon their own efforts to address Climate Change.

Long Term Procurement Planning

- The Greenhouse Gas and Long Term Procurement Planning proceedings are two major components that dovetail into the California Public Utilities Commission's Procurement Incentive Framework. The Long Term Procurement Planning proceeding is a collaborative stakeholder process, including Procurement Review Groups that assess costs and risks of procuring energy resources over a long time horizon in order to fulfill CPUC policy mandates at the lowest cost and least risk to ratepayers. These are but a few of California's major efforts and initiatives in energy policy.

IV. We Must Invest in a More Diverse Workforce

- In closing, let me reiterate that it is absolutely essential that we seize this opportunity for economic growth as a turning point for social change in order to ensure that all members of society, regardless of income or race, can benefit from this new energy economy.

Utilities are facing an imminent exodus of their experienced workforce due to retirements. We need to promote programs to educate and develop a new generation of utility workers with skills for the changing technical needs of the industry. An adequately prepared workforce of the future not only benefits the economy, but it ensures that utilities will remain healthy financially and provide the best quality of service to ratepayers. Regulators, investors, and utilities must band together to make the benefits of this new green economy flourish.

- Thank you all for allowing me to chat with you about California's present and future efforts in the energy policy arena. I urge you all to work with me to continue economic growth in the energy sector and to make my vision of workforce expansion a reality.